

# Committee on Resources

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## Testimony of David Cohen

Mr. Chairman and members of the House Committee on Resources, I am David B. Cohen, Deputy Assistant Secretary of the Interior for Insular Affairs. I am pleased to appear before you today to discuss H. J. Res. 63, the Administration's proposal for legislation that would approve amendments to the Compact of Free Association with the Republic of the Marshall Islands (RMI) and the Federated States of Micronesia (FSM), which I will collectively refer to as the freely associated states or FAS. These amendments will, among other things, split the current Compact, which is a single, tri-lateral agreement among the United States, the RMI and the FSM, into two bi-lateral Compacts between the United States and the RMI and between the United States and the FSM, respectively.

I will focus my comments on the fiscal and economic provisions of the Compacts and the Fiscal Procedures Agreements, which are subsidiary agreements to the respective Compacts. In particular, I will discuss how proposed amendments to these provisions are designed to address the very legitimate concerns that the General Accounting Office (GAO), the Department of the Interior and others have raised with respect to the lack of accountability for Federal funds provided under the current Compact.

### BACKGROUND

Over the 17-year life of Compact financial assistance, it is expected that the United States will ultimately have paid a total of \$1.04 billion in direct grants to the RMI and \$1.54 billion to the FSM. There have been few restrictions on these grants.

Over the last several years, the GAO has issued a number of reports that have raised concerns about the effectiveness of Federal assistance that has been provided under the Compact. We at the department of the Interior have had similar concerns for quite some time; particularly officials in the Office of Insular Affairs, who have been greatly frustrated with the lack of tools properly to administer or track Federal assistance in a manner that could reasonably ensure that such assistance is having its intended effect. Most importantly, we have been hampered by the fact that the current Compact provides for large, loosely defined grants with no express enforcement mechanisms to ensure the efficient and effective expenditure of funds.

I am pleased that, in negotiating the provisions of the amended Compacts, the United States and its negotiating partners, the RMI and FSM, have sought to address the concerns raised by the GAO, the Department of the Interior and others.

### ACCOUNTABILITY PROVISIONS

We have designed a completely new system to ensure that Compact funds are used productively. First, we will target our funding. Compact funds will be available for the following six high-priority sectors only:

- Health
- Education
- Public Infrastructure
- Environmental Protection
- Private Sector Development
- Public Sector Capacity Building

Special emphasis will be given to health and education. The respective Compacts and the related Fiscal Procedures Agreements describe the types of activities that are eligible for funding under each of these sectors. This will enable us to ensure that Compact funds are used exclusively for what the U.S. and our FAS partners have jointly identified as high-priority activities.

Second, the U.S. and its FAS partners will work together to control Compact budgets, including the allocation of funds among the six sectors, to ensure that the objectives of the Compact are being properly pursued. The process will work as follows: Each year, the RMI and FSM will propose their respective

Compact budgets. Those proposals must be approved by bilateral joint committees—a U.S.-RMI joint committee for the RMI Compact and a U.S.-FSM joint committee for the FSM Compact. Each joint committee will include three members from the U.S. and two from the applicable freely associated state. The joint committees will ensure that the Compact budgets conform to the letter and spirit of the respective Compacts.

Third, we will require planning to ensure that Compact budgets further medium- and long-term goals and objectives. Each FAS will be required to prepare and periodically update various plans, which will be subject to the approval of the applicable joint committee. The Compact budgets will be expected to be consistent with these plans.

Fourth, we will give oversight personnel at the Department of the Interior the tools to protect against waste, fraud and abuse. The sector grants will be subject to terms and conditions similar to those applicable to Federal grants provided to state and local governments in the United States. The provisions designed to protect Compact funds include:

The right of the U.S. to unilaterally impose certain special conditions, including additional reports, monitoring and prior approvals, in the event that a grantee has a history of unsatisfactory performance or is not financially stable.

The right of the U.S. to withhold payments or suspend or terminate grants under certain conditions.

The requirement that the FAS be subject to annual audits, and the right of the U.S. to conduct specific audits as it deems necessary.

The right of the U.S. to have full access to all relevant FAS records.

The requirement that the FAS follow procurement provisions designed to ensure competition, transparency and the avoidance of conflicts.

The obligation of the FAS to fully cooperate with any U.S. investigation into the misuse of Compact funds.

We do not intend to make these tools the focus of our accountability program. We understand that the key to a successful accountability program is a continued strong relationship with our FAS partners, so that we can work together to ensure that the Compact funds benefit the people that they are intended to benefit. We also understand, however, that it is difficult to predict what will happen over a 20-year period, and it would be imprudent for us to not have the tools necessary to protect the American taxpayers' investment to improve life in the FAS.

The provisions described above will help us to ensure that the Compact funds reach their intended destination. But it will be of little good if the Compact funds reach their intended destination but do not have the intended effect. That is why, as the fifth prong of our new accountability program, we will apply performance standards and measures to each Compact grant. The joint committees will be responsible for applying appropriate performance standards and measures and evaluating performance on the basis thereof.

Sixth, we will provide for strong minimum standards for each FAS's financial management systems, and we will help them to meet these standards with technical assistance provided by my office and with the public sector capacity development grant.

Seventh, we will provide for detailed reporting, so that the U.S. and its FAS partners can track progress and identify any areas of concern.

Finally, the Department of the Interior is in the process of assembling a Compact oversight team based in the Pacific. We are hiring eight additional full-time employees who will focus exclusively on monitoring and oversight of Compact financial assistance and coordination with other Federal agencies providing program assistance to the FAS.

Additionally, Mr. Chairman, I would like to address the very important question of the impact that migration from the RMI, FSM and Palau, as authorized by the current Compacts, has had on Hawaii, Guam, the Northern Mariana Islands and American Samoa. Migrants have made important contributions to Hawaii and the territories, but have placed additional burdens on the local governments because of their utilization of

services. The GAO reported significant outlays by these United States jurisdictions in aid of migrants and their families. With this history in mind, the legislation before you today includes \$15 million in annual mandatory funding as a contribution to these United States jurisdictions to mitigate the impact of migration.

While this \$15 million will be applied directly to address the impact of migration on United States jurisdictions, the financial assistance that we will provide to the FAS under the amended Compact is really the first line of defense against this impact. The GAO found that migration from the FAS is motivated mainly by the lack of proper education, health care and economic opportunity. The amended Compact is designed to address the problems that drive people to migrate: The targeted funding gives priority to health and education and also supports activities that are designed to promote economic development. We do not pretend that the amended Compact will bring migration to a halt, but we sincerely hope that the people of the FAS, including those who choose to migrate, will, as a result of our new targeted assistance program, be healthier and better educated and hence more likely to be net contributors to whatever community in which they choose to live. Thus, the legislation seeks to improve the conditions that lead to migration from the FAS and ameliorate the effects of migration to the United States when it occurs.

## OBSERVATIONS

Now that I have described our new program, Mr. Chairman, I would appreciate the opportunity to offer a few observations.

My first point is that when we talk about accountability, we are not talking about making the sovereign freely associated states accountable to the U.S. “Accountability” refers to the collective accountability that all three governments share both to the people of the islands and to the American taxpayer. All three governments have a collective responsibility to ensure that the American taxpayer’s money will not be wasted, and, just as importantly, a collective responsibility to ensure that we deliver on our promise to help the people of the islands to improve their quality of life.

Although there will always be some who are initially resistant to change, there is widespread support in all three governments for the new accountability provisions. In fact, some of the most enthusiastic supporters are government “line managers” in the RMI and the FSM—those with the day-to-day responsibility for delivering public services to the people. These managers have endured years of frustration, struggling to keep essential programs going while knowing that a more productive allocation of Compact funds could have made their jobs easier.

A few have expressed concern that the new accountability provisions are harsh, and that the FAS are not equipped to comply with them. We disagree. The new provisions include standard remedies for waste, fraud and abuse. These remedies are the same ones to which state and local governments in the United States are subject when they receive grants from the Federal government. The RMI and FSM have had considerable experience with numerous United States Federal programs and these same remedies. I stress again, however, that the key to our accountability program is not the remedies that could conceivably be exercised in the worst case scenario, but the strong, cooperative relationship that we have with our partners in the islands.

In order to strengthen their ability to comply with the new requirements, the FAS may use Compact funds for appropriate training, software, equipment and guidance. For example, Compact funds could be used to purchase financial management systems, to provide training and hands-on guidance for local personnel or to supplement local personnel with outside experts.

The bottom line, Mr. Chairman, is that all three governments want to ensure that the people of the RMI and FSM receive the full benefit of the Compact assistance program. We can only achieve this with a strong accountability program. The U.S. cannot do it alone: We could not place sufficient personnel on the ground to properly do this job all by ourselves without seriously interfering with the sovereign governmental operations of our FAS partners, conjuring unfortunate images of a return to the old Trust Territory days. The FAS cannot do it alone: They are still in the process of developing the capacity to fully protect against the possibility of waste, fraud and abuse, and to properly measure the effectiveness of Compact-funded activities. All parties recognize that we need to work together to achieve the objectives that we all share.

## BUILDING ON SUCCESS

Some might interpret our new accountability program as an admission that the original Compact has been a

failure. Nothing could be further from the truth. The Compact has been a tremendous success. America's former Trust Territory wards have emerged as free, vibrant, sovereign democracies. The United States has achieved its strategic objective of denying other powers control over vast areas of the Pacific. The freely associated states have benefited from the United States defense umbrella, and their people enjoy the right to live, work and study in the United States. Significantly, these nations have become America's most loyal allies in the world.

Cynics say that this loyalty has been purchased with Compact aid. No amount of money, however, could purchase the type of loyalty that leads so many of these islands' finest sons and daughters to serve proudly and honorably in the United States military, risking their lives to protect the freedom of all Americans. Mr. Chairman, at this moment, 82nd Airborne Army Specialist Hilario Bermanis from Pohnpei lies in Walter Reed Army Hospital after being gravely wounded in a grenade attack in South Baghdad. He has lost both legs and an arm. We all pray for Hilario's recovery, and we thank him so much for the tremendous courage that he has shown in the service of our country. As illustrated by the inspiring valor of Hilario Bermanis and other men and women from the freely associated states, there is clearly a heartfelt bond between Americans and the people of these islands. The Compact has only made it stronger. We Americans value this bond.

As for criticism of the original Compact, it is important to remember that that document invented a comprehensive new kind of international relationship that was completely untested at the time. It should surprise no one, and shame no one, that with the wisdom of 17 years of experience, the parties can think of ways to improve the Compact. The financial assistance and accountability provisions of the original Compact provide some opportunities for improvement. The United States and the freely associated states are committed to embracing those opportunities—working together, as partners, to ensure that the promise of these Compacts is fully realized for all of the people of the islands.